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THREE STRATEGIES TO GAIN A COMPETITIVE ADVANTAGE

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Cost leadership is perhaps the clearest of the three strategies. In it, a firm sets out to become the low-cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate in related industries; the firm's breadth is often important to its cost advantage. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, technology, preferential access to raw materials and other factors.

The second strategy is differentiation. In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

The means for differentiation are peculiar to each industry. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors. In construction equipment, for example, Caterpillar Tractor's differentiation is based on product durability, and an excellent dealer network.

The third strategy is focus. This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall.

A firm that engages in each strategy but fails to achieve any of them is 'stuck in the middle'. It possesses no competitive advantage. This strategic position is usually a recipe for below-average performance. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiators, or focusers will be better positioned to compete in any segment. In most industries, quite a few competitors are stuck in the middle.